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**FISCAL IMPACT STATEMENT**

**LS 7664**

**BILL NUMBER:** HB 1448

**NOTE PREPARED:** Jan 8, 2005

**BILL AMENDED:**

**SUBJECT:** County property tax replacement tax.

**FIRST AUTHOR:** Rep. Cherry

**BILL STATUS:** As Introduced

**FIRST SPONSOR:**

**FUNDS AFFECTED:** X GENERAL  
X DEDICATED  
FEDERAL

**IMPACT:** State & Local

**Summary of Legislation:** This bill allows a county council to impose a property tax replacement income tax (PRIT) for the county. It provides that the tax may not exceed 0.75% of adjusted gross income. The bill allows the county council to use 67% of the revenues from the tax for property tax replacement credits, 20% for the purposes of the county general fund, and 13% either for budgetary expenditures of cities and towns in the county or additional property tax relief. The bill also provides that the property tax replacement credits are to be applied before the application of state homestead or state property tax replacement credits.

**Effective Date:** Upon passage; July 1, 2005; January 1, 2006.

**Explanation of State Expenditures:** The state pays a 20% Property Tax Replacement Credit (PTRC) on the amount of levy that is within a civil unit's maximum levy limit that is attributable to property other than business personal property. Likewise, the state pays a 20% Homestead Credit on the net tax due (after PTRC) of levies that are within the limit and attributable to homesteads.

The use of PRIT to replace local property taxes would reduce state expenses for these credits. If all counties adopt the maximum PRIT rate allowed and the entire PRIT revenue is used to replace property taxes then state expenditures for PTRC and homestead credit could be reduced by as much as \$49 M in FY 2006 (partial year), \$148 M in FY 2007, and \$152 M in FY 2008. This is the maximum estimated state savings under this proposal.

The minimum state savings if all counties adopt the maximum PRIT rate are estimated at \$41 M in FY 2006 (partial year), \$124 M in FY 2007, and \$128 M in FY 2008. The minimum estimates are based on the

assumption that the 13% city and town share would be used entirely as additional revenue.

**The range of state expenditure savings (at the full PRIT rate) is estimated at \$41 M - \$49 M in FY 2006 (partial year), \$124 M - \$148 M in FY 2007, and \$128 M - \$152 M in FY 2008 and depends entirely on local action.**

PTRC and Homestead Credits are paid from the Property Tax Replacement Fund (PTRF). These credits are paid from the state General Fund if insufficient balances are available in the PTRF.

**Explanation of State Revenues:**

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:** This bill establishes a new local option income tax that would be used to replace property taxes for local civil units and to provide additional revenue for counties, cities, and towns. The distribution would not include solid waste management districts without the approval of each county fiscal body in each county served by the district. School corporations would not be eligible for a distribution. The income tax could be first collected in July, 2005 with property tax relief taking effect with property taxes paid in 2006.

The tax would be assessed on individual adjusted gross income for county residents and non-residents working in the county who do not pay a similar tax in their county of residence. The tax may be imposed, increased, and reduced in increments of 0.1%. The maximum tax rate for county residents would be 0.75%. The non-resident rate would be limited to 0.3% and can never exceed the resident tax rate. The PRIT would be adopted and adjusted independently of all other local income taxes (CAGIT, COIT, and CEDIT). Taxpayers who receive the federal income tax credit for the elderly or totally disabled would receive a credit against their PRIT liability.

Sixty-seven percent (67%) of PRIT revenues would be used to replace property taxes, countywide. Twenty percent (20%) of the PRIT proceeds would be additional revenue for the county taxing unit. The remaining 13% could be used (1) for additional revenue for cities and towns or (2) as property tax replacement credits for taxpayers in the cities and towns or (3) for a combination of both new revenue and replacement credits. The portion of the 13% city and town share used as new revenue would be designated by a joint ordinance of the cities and towns.

If all counties adopted PRIT at the full 0.75% resident rate, distributions would equal approximately \$789 M for CY 2006, \$811 M for CY 2007, and \$834 M for CY 2008. The non-resident tax rate of up to 0.3% would provide additional revenue. In CY 2006, the 67% share for replacement credits is estimated at \$529 M, the 20% share for additional county revenue would be \$158 M, and the 13% city and town share would amount to about \$102 M.

*Projected Impacts:* The exact impact of PRIT will depend on:

- A) Whether the 13% distribution for cities and towns is used to:
  - 1) replace property taxes collected within the cities and towns,
  - 2) provide additional revenue for the cities and towns, or
  - 3) do both simultaneously; and
- B) The PRIT rate that is adopted by the county.

The net total tax amount (net property tax plus PRIT) paid in the county would be higher under the proposal than the net property tax under current law. There are two reasons for this. First, the 20% county share and part or all of the 13% city and town share would be used as additional revenue. This revenue would not offset any property tax. Second, the state would not pay PTRC or homestead credits on the PRIT revenue used for property tax replacement.

There would also be shifting of overall net tax burdens from taxpayers who pay property tax to individual taxpayers who pay income tax.

**State Agencies Affected:** Department of State Revenue, Department of Local Government Finance, State Budget Agency, Auditor of the State, Treasurer of the State.

**Local Agencies Affected:** Adopting counties.

**Information Sources:** State income data, Department of Revenue; Commuter patterns data, U.S. Census Bureau; Local Government Database.

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